Investing in Bulgarian Tourism

Teaser Paper
Milko Teofilov
Sofia, November 2017
Executive Summary
Investing in Bulgarian Tourism

**Key Insights**

- **Why Bulgaria**
  - **Lowest cost** of doing business in EU for both variable and fix costs (cost advantage for labor cost >80%, utilities ~30%, industrial and office rents between 68% and 82% compared to EU average)
  - **Lowest corporate tax rate** of 10% flat in EU (compared to 15% in SRB, 16% in RO and 19% in PL and CZ)
  - **Political and business stability** (3.4% GDP growth for 2016, 5th place in EU and 2nd lowest gov. debt to GDP)
  - **Balanced GDP composition** with above average industry and tourism sector contribution, Germany is major trade partner
  - **Access to key markets** in European Union, Russia, Turkey and Middle East

- **Why Tourism**
  - **6% annualized growth** of tourist arrivals for the last 5 years outperforming the EU and world average (4.6% and 4.3%) as well as competitors like Turkey, Italy and France. At the same time, available bed-places have increased by only ~2% p.a.
  - **Projected growth of business and foreign visitor spending** of 84% and 75% respectively by 2027 clearly surpassing the EU (27% and 48%) and world average (49% and 58%)
  - **Proximity to key generating markets** as its neighbor countries, together with Germany, Poland and UK making-up the top 10 arrival countries
  - **High governmental priority** on positioning as high-end, year-round destination (via business, wellness, cultural tourism etc.)

- **Investment Opportunities**
  - **Tourism investment map** created together with the regional municipalities containing >30 projects (e.g. expo-centers, sport centers, golf and wellness resorts etc.) with investment volume ranging from 0.5 to >100 mEUR
  - Further possibly to bridge to private investment projects via the officially partnered tourism sector organizations
Why invest in Bulgaria
What is Bulgaria’s proposition as an investment destination?

Why invest in Tourism
What are Bulgaria’s competitive advantages as an investment destination in tourism?

Investment projects
Overview of different investment opportunities in the Bulgarian tourism sector
Bulgaria is located in South-Eastern Europe and has been awarded by major institutions as a promising economy to do business with.

Key facts about Bulgaria:

- **Location:**
  - Greece
  - Bulgaria
  - Hungary
  - Croatia
  - Serbia
  - Romania

- **Population:** 7,101,859

- **Outsourcing destination in Europe for 2015,** according to Cushman & Wakefield

- **GDP growth rate in the EU for 2016**

- **Fastest internet speed in the world**

- **Place in the Global Service Location Index for 2016,** according to AT Kearney

- **Easiest economy to do business in East Europe for 2014,** according to the World Bank
Bulgaria offers highly favorable investment conditions: competitive cost structure, access to markets and political stability

Overview investment conditions

- EU, NATO and WTO member
- Currency board 1 EUR = 1,9558 lev (no currency risks)
- Low government debt to GDP ratio (<30%, 2nd lowest in EU)
- Lowest labor cost in the EU
- GDP per capita (PPP) ~20,300 USD (64th world)
- Lowest tax rate in the EU
- Low utility costs
- 10% corporate tax (lowest in EU)
- 230€ minimum, 503€ average wage
- 0.1% inflation rate (2016 to 2015)
- Investor classification and incentivation (e.g. speed-up for approval procedures)
- 98% of the high school students learn a foreign language
- 25% of population holds university degree
- 6,4% unemployment (as of April 2017)
- 62,2% of population is in working age
- 80 000 students abroad
Except for 2014, Bulgaria’s GDP growth rate outperforms EU average systematically in the last 5 years

GDP growth and tax rate

GDP growth rate (%) comparison¹

Corporate tax rate in selected countries, 2016 (%)²

Sources: 1 World Bank
2 Eurostat
In 2016, Bulgaria has moved up two places to become the 5th rank holder in the EU regarding GDP growth rate.

GDP growth rates - EU member States comparison

GDP growth rate of the EU member states in 2016 (%)

Source: World Bank
**Bulgaria offers highly competitive cost structure – both in terms of fix and variable costs**

Competitive cost of doing business

<table>
<thead>
<tr>
<th>Electricity</th>
<th>Gas</th>
<th>Water</th>
<th>Industrial rents</th>
<th>Office rents</th>
<th>Cost of Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>BG¹</td>
<td>0,079 €/kWh</td>
<td>0,019 €/kWh</td>
<td>1,09 €/m³</td>
<td>From 2,5 €/m² per month (Sofia)</td>
<td>From 12 €/m² per month (Sofia)</td>
</tr>
<tr>
<td></td>
<td>(5th most competitive in EU)</td>
<td>(most competitive in EU)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-28²</td>
<td>0,114 €/kWh</td>
<td>0,03 €/kWh</td>
<td>4,09 €/m³</td>
<td>~14 €/m² per month (Frankfurt)³</td>
<td>~38 €/m² per month (Frankfurt)⁴</td>
</tr>
</tbody>
</table>

| Cost benefit | 30% ↓ | 36 % ↓ | 73% ↓ ↓ | 82% ↓ ↓ ↓ | 68% ↓ ↓ | 82% ↓ ↓ ↓ |

Sources: 1 National Statistical Institute  
2 Eurostat  
³ Global Water Intelligence  
4 Statista
Bulgaria has a balanced GDP composition with above average industry sector portion, while trade volume keeps increasing.

GDP composition and trade volume development

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>28%</td>
<td>74.1%</td>
</tr>
<tr>
<td>2011</td>
<td>24.5%</td>
<td>67.6%</td>
</tr>
<tr>
<td>2012</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2013</td>
<td>4.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>2014</td>
<td>1.5%</td>
<td>28%</td>
</tr>
<tr>
<td>2015</td>
<td>30%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Trade volume growth between Bulgaria and the rest of the world (BGN million)

- Imports
- Exports

Sources: 1 World Bank
2 National Statistical Institute
EU accounts for >64% of the trade volume – Germany, Italy and Romania being the major trading partner

International trade volume and distribution

**Trade volume\(^1\) development between Bulgaria and the rest of the world (million BGN)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU</th>
<th>CIS</th>
<th>OECD</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Trade volume distribution between Bulgaria and the EU in 2015 (%)**

- **Germany**: 19.8%
- **Italy**: 35.8%
- **Romania**: 13.0%
- **Greece**: 5.5%
- **Spain**: 5.7%
- **France**: 8.7%
- **Others**: 11.6%

Source: National Statistical Institute

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1 Trade volume = Exports + Imports
Why invest in Bulgaria
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What are Bulgaria’s competitive advantages as an investment destination in tourism?

Investment projects
Overview of different investment opportunities in the Bulgarian tourism sector
Tourism in BG profits from its proximity to main markets, however further positioning as high-end, year-round destination is required

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Relative proximity to leading global generating markets (e.g. Germany)</td>
<td>- Clear seasonality of tourism</td>
</tr>
<tr>
<td>- High cost competitiveness</td>
<td>- Tendency to reduce the average length of stay</td>
</tr>
<tr>
<td>- Well-developed airport and partly road infrastructure</td>
<td>- Insufficient marketing to position BG in the high-end tourism sector (→ HR)</td>
</tr>
<tr>
<td>- Increasing penetration of low-cost airlines (WizzAir, RyanAir) with increasing number of lanes</td>
<td>- Unevenly developed transport infrastructure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Favorable and stable economic environment for tourism development</td>
<td>- Availability of skilled workforce</td>
</tr>
<tr>
<td>- Facilitating visa regimes (e.g. China)</td>
<td>- Changes in behavior, attitudes and motivation of tourists</td>
</tr>
<tr>
<td>- Increasing the number of trips at the expense of the duration</td>
<td>- Lack of focus on service and safety</td>
</tr>
<tr>
<td>- Increasing the price advantage when searching for a tourist trip</td>
<td>- External risks: climate change, terror attacks to potentially shift tourist inflows</td>
</tr>
</tbody>
</table>
With 6% CAGR of tourist arrivals for the last 5 years, Bulgaria’s tourism sector outperforms the EU and World average

Tourism: a growing industry worldwide

**International tourist arrivals worldwide (millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>417</td>
<td>1,045</td>
</tr>
<tr>
<td>2013</td>
<td>433</td>
<td>1,093</td>
</tr>
<tr>
<td>2014</td>
<td>454</td>
<td>1,137</td>
</tr>
<tr>
<td>2015</td>
<td>478</td>
<td>1,189</td>
</tr>
<tr>
<td>2016</td>
<td>500</td>
<td>1,235</td>
</tr>
</tbody>
</table>

CAGR 4.3%

**International tourist arrivals in Bulgaria (thousands)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6,540</td>
<td>8,251</td>
</tr>
<tr>
<td>2013</td>
<td>6,897</td>
<td>8,887</td>
</tr>
<tr>
<td>2014</td>
<td>7,310</td>
<td>8</td>
</tr>
<tr>
<td>2015</td>
<td>7,098</td>
<td>8</td>
</tr>
<tr>
<td>2016</td>
<td>8</td>
<td>251</td>
</tr>
</tbody>
</table>

CAGR +6.0%

CAGR: compound annual growth rate

Sources: 1 UNWTO World Tourism Barometer  
2 National Statistical Institute  
3 The estimated number for 2017 is calculated based on the recorded growth for the period January-June 2017
Bulgaria’s tourism growth exceeds that of competitors Turkey, Italy and France, however lies behind Spain, Croatia and Greece

Tourist arrivals – selected CAGR comparison

CAGR of the number of international tourist arrivals between 2012-2016 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>12.4</td>
</tr>
<tr>
<td>Romania</td>
<td>10.6</td>
</tr>
<tr>
<td>Croatia</td>
<td>7.4</td>
</tr>
<tr>
<td>Spain</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Bulgaria</strong></td>
<td>6.0</td>
</tr>
<tr>
<td>EU</td>
<td>4.6</td>
</tr>
<tr>
<td>World</td>
<td>4.3</td>
</tr>
<tr>
<td>Poland</td>
<td>4.2</td>
</tr>
<tr>
<td>Italy</td>
<td>3.1</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>1.7</td>
</tr>
<tr>
<td>France</td>
<td>0.2</td>
</tr>
<tr>
<td>Turkey²</td>
<td>-5.5</td>
</tr>
</tbody>
</table>

Sources: 1 UNWTO World Tourism Barometer
2 Ministry of Culture and Tourism of Turkey
The tourism sector in Bulgaria is expected to grow by more than **50%** in the next 10 years making it a vital part of the country’s GDP

Tourism growth and contribution to GDP

### Bulgarian Tourism sector contribution to GDP (BGN million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>11,618</td>
<td>12,069</td>
<td>6,529</td>
<td>30,216</td>
</tr>
<tr>
<td>2017</td>
<td>12,069</td>
<td>12,069</td>
<td>6,818</td>
<td>30,906</td>
</tr>
<tr>
<td>2027</td>
<td>18,345</td>
<td>12,584</td>
<td>10,304</td>
<td>41,233</td>
</tr>
</tbody>
</table>

Source: World Travel & Tourism Council

### Tourism contribution as % to the GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>EU</th>
<th>% of total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>12.8</td>
<td>10.2</td>
<td>12.8</td>
</tr>
<tr>
<td>2027</td>
<td>16.7</td>
<td>11.2</td>
<td>16.7</td>
</tr>
</tbody>
</table>

**Direct**: sum of internal tourism consumption and purchases by tourism providers

**Indirect**: sum of supply chain, investment and government collective

**Induced**: broader contribution of those in/directly employed by the tourism sector
The number of international tourist arrivals in Bulgaria is growing by 6% p.a. – exceeding the capacity growth of 2%
International tourist arrivals and number of bed-places

**International tourist arrivals in Bulgaria (thousands)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6,540</td>
</tr>
<tr>
<td>2013</td>
<td>6,897</td>
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<tr>
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<tr>
<td>2015</td>
<td>7,098</td>
</tr>
<tr>
<td>2016</td>
<td>8,251</td>
</tr>
</tbody>
</table>

**Number of bed-places**

<table>
<thead>
<tr>
<th>Year</th>
<th>Places</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>301,140</td>
</tr>
<tr>
<td>2013</td>
<td>302,433</td>
</tr>
<tr>
<td>2014</td>
<td>314,257</td>
</tr>
<tr>
<td>2015</td>
<td>322,465</td>
</tr>
<tr>
<td>2016</td>
<td>328,264</td>
</tr>
</tbody>
</table>

Sources: 1 National Statistical Institute  
2 Eurostat  
A “bed place” applies to a single bed; a double bed is counted as two bed places
In Bulgaria, around 7 out of 100 EUR invested are spent in the tourism sector, which is expected to grow above average in 2017.

Tourism capital investment contribution

| Source: World Travel & Tourism Council |
Tourists from the neighbor countries, together with Germany, Poland and UK make-up the top 10 arrival countries

Top 10 countries of origin of tourists in Bulgaria

Top 10 international tourist arrivals in Bulgaria in 2016 (thousands)

<table>
<thead>
<tr>
<th>Country</th>
<th>Arrivals (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>1,096</td>
</tr>
<tr>
<td>Greece</td>
<td>1,067</td>
</tr>
<tr>
<td>Germany</td>
<td>826</td>
</tr>
<tr>
<td>Russia</td>
<td>580</td>
</tr>
<tr>
<td>Turkey</td>
<td>565</td>
</tr>
<tr>
<td>Macedonia</td>
<td>527</td>
</tr>
<tr>
<td>Serbia</td>
<td>374</td>
</tr>
<tr>
<td>Poland</td>
<td>365</td>
</tr>
<tr>
<td>UK</td>
<td>273</td>
</tr>
<tr>
<td>Ukraine</td>
<td>265</td>
</tr>
</tbody>
</table>

Source: National Statistical Institute
Foreign visitor spending overwhelms domestic with mainly leisure purpose – Germany leading the race in the #nights spends

Tourism spending and night spends

<table>
<thead>
<tr>
<th>Tourism spending in 2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign visitor spending (USD 3.945 million)</td>
</tr>
<tr>
<td>Domestic spending (USD 1.199 million)</td>
</tr>
<tr>
<td>Leisure spending (USD 3.813 million)</td>
</tr>
<tr>
<td>Business spending (USD 1.330 million)</td>
</tr>
</tbody>
</table>

Number of night spends by the top 10 international tourist arrivals in Bulgaria (thousands)

<table>
<thead>
<tr>
<th>Country</th>
<th>2013</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>3,232</td>
<td>2,286</td>
</tr>
<tr>
<td>Russia</td>
<td>2,823</td>
<td>1,865</td>
</tr>
<tr>
<td>Romania</td>
<td>1,387</td>
<td>1,454</td>
</tr>
<tr>
<td>Poland</td>
<td>1,042</td>
<td>837</td>
</tr>
<tr>
<td>UK</td>
<td>1,341</td>
<td>1,368</td>
</tr>
<tr>
<td>Ukraine</td>
<td>417</td>
<td>417</td>
</tr>
<tr>
<td>Turkey</td>
<td>251</td>
<td>172</td>
</tr>
<tr>
<td>Greece</td>
<td>246</td>
<td>225</td>
</tr>
<tr>
<td>Macedonia</td>
<td>184</td>
<td>108</td>
</tr>
<tr>
<td>Serbia</td>
<td>128</td>
<td>108</td>
</tr>
</tbody>
</table>

Sources: 1 World Travel & Tourism Council 2 National Statistical Institute
Foreigner spending in Bulgaria together with Business and Leisure is expected to grow faster than the EU and World average
Tourism spending development in Bulgaria compared to EU and World

**Foreign spending (USD million)**

- **Bulgaria**: 3,945k (2016), 6,927k (2027) +75.6%
- **EU**: 419k (2016), 620k (2027) +48.0%
- **World**: 1,402k (2016), 2,221k (2027) +58.5%

**Domestic spending (USD million)**

- **Bulgaria**: 1,199k (2016), 1,730k (2027) +44.3%
- **EU**: 938k (2016), 1,111k (2027) +18.4%
- **World**: 1,199k (2016), 1,730k (2027) +51.5%

**Leisure spending (USD million)**

- **Bulgaria**: 3,813k (2016), 6,206k (2027) +62.8%
- **EU**: 1,028k (2016), 1,313k (2027) +27.7%
- **World**: 3,823k (2016), 5,918k (2027) +54.8%

**Business spending (USD million)**

- **Bulgaria**: 1,330k (2016), 2,450k (2027) +84.2%
- **EU**: 329k (2016), 420k (2027) +27.7%
- **World**: 1,154k (2016), 1,720k (2027) +49.1%

Source: World Travel & Tourism Council
Bulgaria has the potential to become a four season touristic destination

Diversity in tourism

**Sea tourism**
A characteristic feature of the **sea tourism** is its high concentration in two municipalities - Nessebar and Varna, where almost **half of all income from night spends** is realized.

**Mountain tourism**
Bulgaria has been recognized as the most popular skiing destination in the Balkans with a total length of **ski runs** of over **210 km**. Major resorts are Bansko, Borovets and Pamporovo.

**Cultural tourism**
By number of **cultural monuments** and artifacts, Bulgaria is in **third place** in Europe after Italy and Greece with more than 40,000 on its territory.

**SPA tourism**
There are great opportunities for the development of SPA tourism in Bulgaria. More than **600 large mineral springs** are known, of which **only about 5% are used**.

**Urban tourism**
There is potential for the development of urban tourism, considering recent **low-lost airline penetration** in major cities like Sofia, Varna and Bourgas.
Content

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There are great opportunities for investing in the Tourism sector in Bulgaria

Tourism investment map

NORTH WEST
- Expo business center in municipality center Vidin ~13 mEUR
- Motorsports park near Chelopech ~120 mEUR

SOUTH WEST
- Aqua park in proximity to Sofia
- Reconstruction of Ovtscha Kupel and Gorna Banya bathhouses in Sofia
- Ski area incl. resort near Dupnitsa ~15 mEUR
- Expo business center in municipality center Blagoevgrad ~18 mEUR
- Sports facility center incl. hotel complex near Blagoevgrad ~12 mEUR

SOUTH CENTRAL
- Reconstruction of SPA recreational complex near Stara Zagora (>34000 spends per yr)
- Golf resort with SPA hotel near Dospat ~10 mEUR
- Small expo center near an ancient Thracian site ~0.5 mEUR

SOUTH EAST
- Expo business center in municipality Vidin ~13 mEUR
- Motorsports park near Chelopech ~120 mEUR
- Rental and management (incl. possible renovation) of 3 hotel buildings and restaurants with >200 rooms, 1st line near Gold Sands resort with plot size ~450 Ar
- SPA and swimming pool complex in Varna ~4 mEUR
- Horse park Vinitza, Varna ~2.5 mEUR
- Mud bath center in SPA center Shabla

NORTH EAST
- Rental and management (incl. possible renovation) of 3 hotel buildings and restaurants with >200 rooms, 1st line near Gold Sands resort with plot size ~450 Ar
- SPA and swimming pool complex in Varna ~4 mEUR
- Horse park Vinitza, Varna ~2.5 mEUR
- Mud bath center in SPA center Shabla

NORTH CENTRAL
- Recreational resort at the Peelin dam near Razgrad ~1.25 mEUR
- Ski area incl. resort near Tryavna
- Recreational resort Uzana near Gabrovo

SOUTH CENTRAL
Further opportunities incl. bridge to private projects via the officially partnered tourism organizations upon request.
The Ministry of Tourism is glad to support your investment initiatives in Bulgaria’s tourism sector

Contact

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Deputy Minister

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Bulgaria

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Thank You!